



# Bay County Retiree Health Care Plan

December 31, 2013 Actuarial Valuation

VEBA Board Meeting

March 10, 2015



Gabriel Roeder Smith & Company  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)



# Agenda

---

- ◆ Background
- ◆ Components of the Actuarial Valuation
- ◆ GASB Statements No. 43 and 45
- ◆ Results of the 2013 Valuation
- ◆ Questions



# Background

---

- ◆ According to a 1998 GFOA study, the majority of state and local governments provide Other Post-employment Benefits (OPEB)
- ◆ OPEB includes any post-employment benefit other than pension
  - ▶ Typically the largest component will be retiree health care and prescription drug benefits



# Background

---

- Retiree health benefits provided by Bay County are defined benefit arrangements:
  - ▶ A promise made to employees, that benefits will be provided upon retirement
  - ▶ Retiree health benefits sometimes are not clearly defined
    - And definition may change over time as healthcare and coverage options evolve



# Background

---

## ◆ Complicating issues

- ▶ Retiree health care benefits do not normally “vest” -- benefits can be revised upward or downward at any time
- ▶ Benefit amounts are not linked to payroll or to the plan sponsor’s ability to finance them
- ▶ People may have other sources for retiree health coverage
- ▶ Changes in the external environment can dramatically affect OPEB costs



# Background

---

- ◆ A generation ago, OPEB was a small percentage of payroll
- ◆ Cost of OPEB becoming more significant
  - ▶ Aging population
  - ▶ Double digit health care cost increases
- ◆ Historically, OPEB programs were:
  - ▶ Not pre-funded
  - ▶ Reflected on employers' financial statements using the pay-as-you go approach



# Background

---

- ◆ Why have OPEB programs not been pre-funded?
  - ▶ Costs were low a generation ago
  - ▶ No requirement to pre-fund
  - ▶ Evolving nature of benefit provided



# Background

---

## ◆ The role of the actuary

- ▶ Perform actuarial valuation to determine contributions such that the plan remains solvent
  - Contribution calculated by actuary is reasonable based on known past information and assumptions about future events
- ▶ Calculate cost of proposed benefit changes
- ▶ Be an advisor to policy makers with respect to the actuarial operations of the plan

## ◆ Actuary performs these duties:

- Using generally accepted actuarial principles and,
- In accordance with standards of practice prescribed by the Actuarial Standards Board
- ▶ Actuary is not a decision maker





# Background

---

- ◆ In order for a benefits program to be self-sustaining, the following must hold:

$$C + I = B + E$$

- ◆ C - contributions
- ◆ I - investment income
- ◆ B - benefits
- ◆ E - expenses



# Background

---

## ◆ Pre-funding basics

### ▶ Pay-as-you-go funding

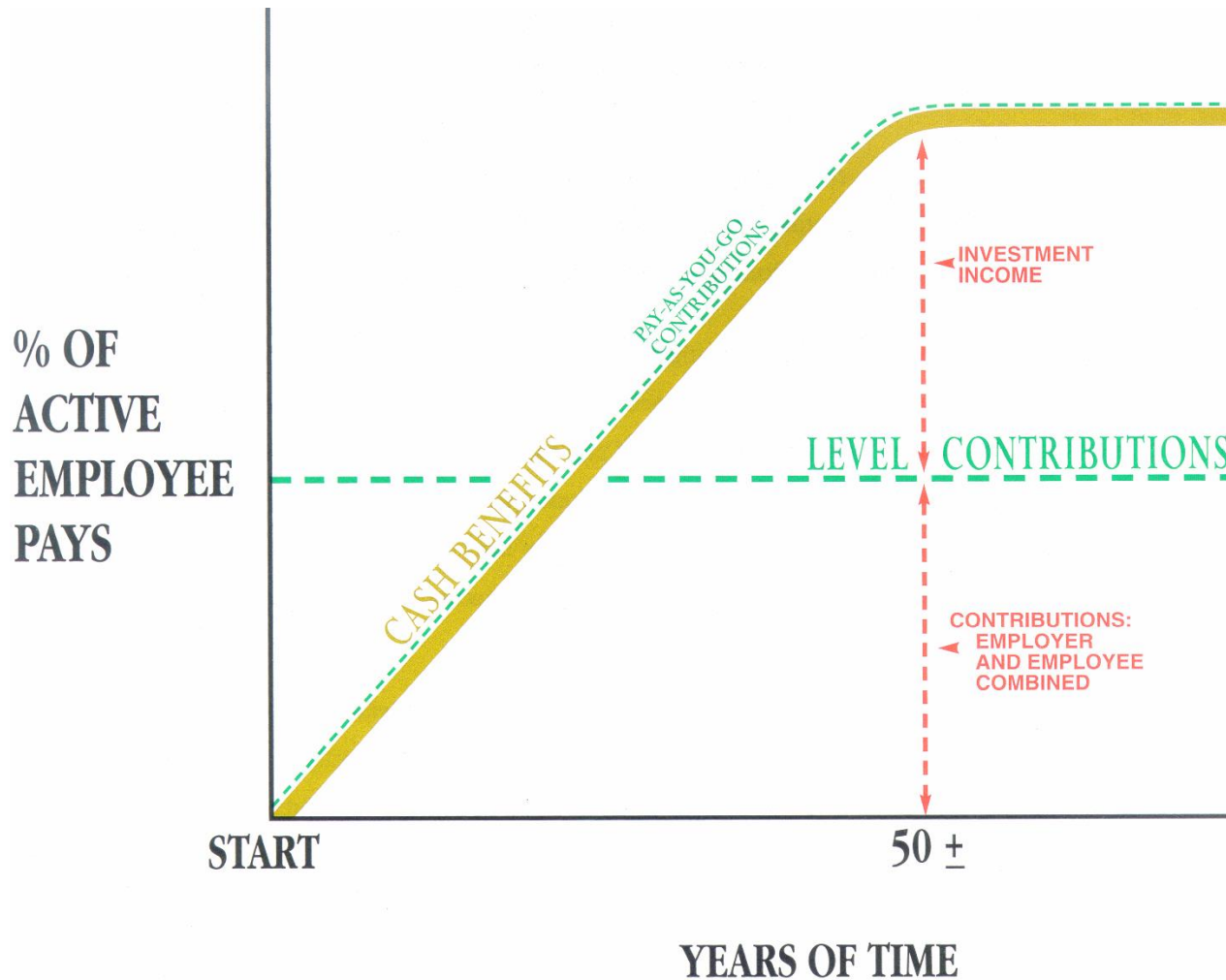
- Pay benefits when they are due (no advance funding)
- Increasing cost method, as group matures, there are more retirees, and medical costs increase

### ▶ Pre-funding

- Set aside money now, to pay for benefits later

## ◆ An actuarial valuation estimates the amount that needs to be set aside now to pay for benefits later

# Background





# Background

---

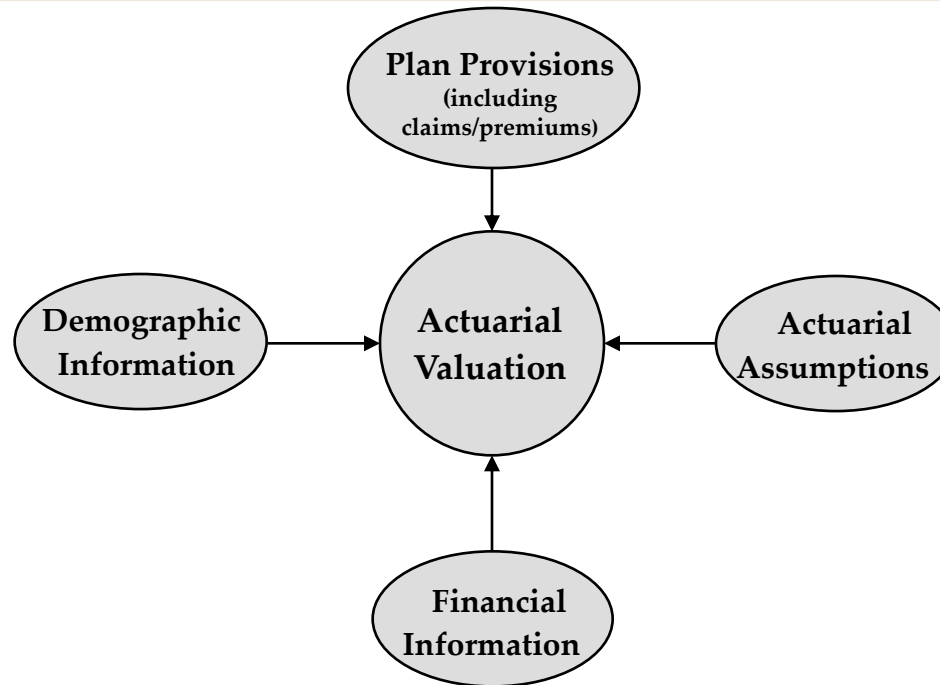
## ◆ Why pre-fund?

- ▶ Benefit security for plan members
- ▶ Assets can generate investment income to help pay for the benefits
- ▶ More level contribution pattern, so future generations of taxpayers will not be obligated to higher costs than the current generation
- ▶ Compliance with legal and/or accounting requirements
- ▶ Prudent thing to do



# Components of the Actuarial Valuation

---



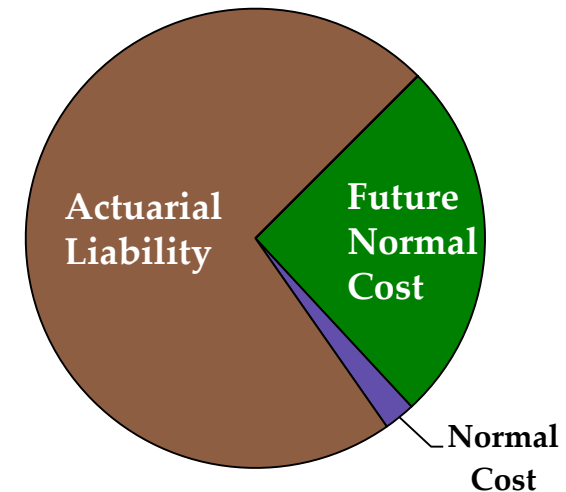
- ◆ Demographic Information, Financial Information & Plan Provisions (including claims/premium information) are provided by the plan sponsor.
- ◆ Actuarial Assumptions are recommended by the actuary and approved by the Board (typically the demographic assumptions are the same as those used in the pension valuation).
- ◆ The actuarial valuation is a mathematical process used to project future payments on account of specified benefit provisions. These projected payouts are converted to equivalent present value amounts and a corresponding dollar contribution is determined.

# Components of the Actuarial Valuation

- ◆ **Present Value of Future Benefits** - Present Value (PV) of all future benefits payable to current participants (active, retired, terminated vested)

Present Value of Future Benefits

- ◆ **Actuarial Liability** - Portion of PV of Future Benefits allocated to prior years
- ◆ **Normal Cost** - Portion of PV of Future Benefits allocated to current year
- ◆ **Future Normal Costs** - Portion of PV of Future Benefits allocated to future years





# Components of the Actuarial Valuation

---

$$\begin{array}{r} \text{Actuarial Accrued Liability} \\ - \text{Actuarial Value of Assets} \\ \hline \text{Unfunded Actuarial Liability} \end{array}$$

$$\text{Annual Required Contribution} = \text{Normal Cost} + \text{Amortization of the Unfunded Liability}$$



# GASB Statements No. 43 and No. 45

---

- ◆ The Governmental Accounting Standards Board (GASB) issued the following:
  - ▶ Statement No. 43 – Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans (OPEBs) – this statement applies to the plan
  - ▶ Statement No. 45 – this statement sets the accounting standards for employers sponsoring OPEB plans





# GASB Statements No. 43 and No. 45

---

## ◆ GASB Statements:

- ▶ Are accounting statements, NOT funding requirements
- ▶ They require the calculation of an Annual Required Contribution (ARC)
- ▶ Entities that do not pre-fund will have large unfunded liabilities showing in their financial statements over time
- ▶ These unfunded liabilities could impact the entities ability to borrow

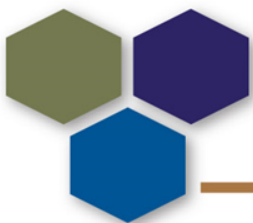


# Valuation Comments

---

## ◆ Amortization Periods/Methods

Group	Period (Years)	Method
General/Sheriff	28	Level Dollar
DWS	28	Level % of Payroll
Library	28	Level Dollar
BABH	24	Level % of Payroll
Medical Care Facility	26	Level Dollar
Road Commission	18	Level % of Payroll



# Valuation Comments

---

- ◆ Changes to the ARC as a result of:
  - ▶ Updated trend
  - ▶ Generally favorable premium and claims experience
    - Library had unfavorable experience
  - ▶ Changes to amortization method
    - Library – level dollar
  - ▶ Patient Protection and Affordable Care Act - adjustments for “Cadillac Plans”



# Valuation Results – Retiree Health Annual Required Contributions

<b>Fiscal Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Valuation Date</b>	<b>12/31/2011</b>	<b>12/31/2013</b>	<b>12/31/2013</b>
General County	\$4,212,687	\$3,249,758	\$3,191,103
DWS	424,184	469,297	485,723
Library	166,949	384,214	376,853
BABH	427,023	190,719	197,394
Medical Care Facility	3,798,701	3,001,446	2,964,927
Sheriff's Dept	1,188,540	909,669	908,746
Road Commission	2,184,913	2,181,711	2,258,071
<b>Total</b>	<b>\$12,402,997</b>	<b>\$10,386,814</b>	<b>\$10,382,817</b>

Annual Required Contributions have increased for DWS, Library, and Road Commission.



# Results of the 2013 Valuation – Retiree Health Benefits

	<b>General County</b>	<b>DWS</b>	<b>Library</b>	<b>BABH</b>	<b>Medical Care Facility</b>	<b>Sheriff's Dept</b>	<b>Road Commission</b>
Actuarial Accrued Liability	\$ 39,123,953	\$ 10,421,661	\$ 4,546,691	\$ 11,156,717	\$ 40,272,264	\$ 10,848,259	\$ 26,711,098
Actuarial Value of Assets	8,713,123	4,169,542	1,473,759	13,145,578	7,336,180	2,762,928	839,502
Unfunded Actuarial Accrued Liability	30,410,830	6,252,119	3,072,932	(1,988,861)	32,936,084	8,085,331	25,871,596
Funded Ratio	22.3%	40.0%	32.4%	117.8%	18.2%	25.5%	3.1%
Fiscal Year 1/1/2014 - 12/31/2014							
Normal Cost	\$ 1,046,784	\$ 157,872	\$ 161,609	\$ 319,108	\$ 541,597	\$ 323,964	\$ 383,152
Amortization Payment	<u>2,202,974</u>	<u>311,425</u>	<u>222,605</u>	<u>(128,389)</u>	<u>2,459,849</u>	<u>585,705</u>	<u>1,798,559</u>
Total	3,249,758	469,297	384,214	190,719	3,001,446	909,669	2,181,711
Data							
Actives	301	36	43	207	142	76	56
Covered Retirees	176	27	10	69	156	46	83



# Questions?



- ◆ Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this presentation concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.
- ◆ This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- ◆ This presentation is intended to be used in conjunction with the actuarial valuation report issued on March 5, 2015. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.